

Service Date: April 24, 1995

DEPARTMENT OF PUBLIC SERVICE REGULATION
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MONTANA

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IN THE MATTER of the Application of)	UTILITY DIVISION
MOUNTAIN WATER COMPANY for)	
Authority to Increase Rates and Charges for)	DOCKET NO. 94.7.26
Water Service in its Missoula, Montana)	
Service Area.)	ORDER NO. 5795b

ORDER APPROVING STIPULATION AND SETTLEMENT

1. On July 15, 1994 Mountain Water Company (Applicant or Mountain Water) filed an application with the Montana Public Service Commission (Commission) for authority to increase water rates for its Missoula, Montana customers by approximately 22.6 percent, or an annual revenue increase of approximately \$1,493,348. Mountain Water requested an interim increase in rates of 19.0 percent, approximately \$1,251,850 or 84 percent of the proposed permanent increase.

2. Montana Consumer Counsel (MCC), the City of Missoula (City) and District XI Human Resource Council (HRC), intervened in this Docket. MCC and the City challenged the need for the level of revenue increase requested by Mountain Water.

3. MCC provided a specific revenue increase recommendation of \$674,645. According to MCC, Mountain Water's operations for the test period produced an overall rate of return of 7.73 percent. MCC and Mountain Water stipulated to 10.79 percent as an acceptable overall rate of return for Mountain Water, and MCC's revenue recommendation incorporated the terms of that stipulation. Mountain Water's last authorized overall rate from the last general rate order was 11.361 percent.

4. In Interim Order No. 5795a, the Commission determined that the difference between the test period return and the stipulated return constituted an income deficiency and that deferring rate relief until a final order might adversely affect the utility's financial condition. The Commission granted Mountain Water interim rate relief of \$674,654 on an annual basis (Rowe dissenting).

5. Mountain Water also requested to be allowed to assess its customers in the former Clark Fork Water Company service territory the same rates as its other customers and to generate interim relief granted by increasing the rate for all services provided under its Mountain Water tariff on the basis of a uniform percentage increase. The Commission granted Applicant's request for a uniform percentage increase in its Mountain Water tariff, applied to all service charges.

6. On March 13, 1995 Mountain Water filed an application with the Commission for an order approving a stipulated settlement to its pending water rate increase for the Missoula Division. Parties to Mountain Water's proposed settlement include the Montana Consumer Counsel, the City of Missoula and District XI Human Resource Council.

7. The stipulation proposes that the Commission authorize Mountain Water a permanent revenue increase of \$792,000, generated by increasing all interim rates and charges, except hydrant rental fees, by 1.66 percent. The stipulation also provides that Mountain Water be allowed to implement a discount for certain customers, that it be allowed to account for OPEBs in accordance with FASB 106, and that it be authorized to institute a limited rebate.

8. In the afternoon and then later in the evening on April 11, 1995, the Commission held publicly noticed meetings on the stipulation at the Forestry Building, University of Montana, Missoula, Montana. The Commission heard argument and took evidence on whether adopting the stipulated settlement would be in the public interest.

9. In the afternoon hearing, Arvid Hiller, Mountain Water's General Manager, and Dr. Tom Power, witness for HRC, testified in support of the stipulation. (Prefiled testimony from all parties was received into evidence.) Mr. Hiller testified generally on the stipulated rate of return, capital structure, and revenue requirement as presented in the stipulation. Dr. Power supported the stipulated 10 percent discount for Mountain Water's LIEAP qualifying customers. At the evening hearing, E. E. Lewis and John Greathouse, public witnesses who are landlords in the subdivision formerly receiving service from Clark Fork Water Company, objected to the stipulated rate parity between Clark Fork's former customers and Mountain Water's existing customer base. Richard Petaja, another public witness, testified on his concerns about Mountain Water's service. He stated that he had experienced excessive chlorine which exacerbated a skin condition. He also had a

dispute with Mountain Water about discussions on whether a water line was "stubbed in" on a lot he sold.

10. Carol Hovland, Missoula resident and Mountain Water ratepayer, testified on concerns about the flat rate structure. She stated that there is a disparity between rates assessed per residence. For example, a single person pays as much as families with eight children for the same number of rooms. Metering is not an option for her, she testified. People on fixed incomes cannot afford the rate increase, yet fall through the cracks and do not qualify for the low income discount.

11. The Commission has thoroughly evaluated the stipulation and settlement and approves the stipulation with the following qualifications:

(a) This Order approves the general conclusion disposing of all issues and is not a ruling on any specific issue, or an approval or denial of related arguments in the Docket.

(b) The stipulation and settlement provisions pertaining to the limited rebate should apply to all former Clark Fork Water Company customers who converted from flat to metered service during the period October 1, 1994 to the date of this order. For purposes of this order a customer is considered to have converted from flat to metered service if a meter installation request is pending.

12. The "affordable" water rate schedule, approved by acceptance of the stipulation, is a ratemaking experiment. Since this rate schedule is experimental, Mountain Water should provide the Commission with periodic reports providing program costs and benefits. The Commission finds that Mountain should file annual reports, with the first report due July 15, 1996. Mountain is directed to cooperate with the Commission staff and all other parties to this Docket in developing the form and content of the required report.

CONCLUSIONS OF LAW

1. The Applicant, Mountain Water Company, is a public utility as defined in Section 69-3-101, MCA. The Montana Public Service Commission properly exercises jurisdiction over Applicant's rates and service pursuant to Section 69-3-102, MCA.
2. The Commission has provided adequate public notice and an opportunity to be heard as required by Section 69-3-303, MCA, and Title 2, Chapter 4, MCA.
3. The rates and rate structure approved in this order are just and reasonable. Sections 69-3-201, and 69-3-330, MCA.

ORDER

THEREFORE THE MONTANA PUBLIC SERVICE COMMISSION ORDERS THAT:

1. The tariffs, Appendix A of the stipulation, filed by Mountain Water Company to implement the terms and conditions of the stipulation, are hereby approved.
2. The tariffs shall be effective for services rendered on and after April 21, 1995.
3. Mountain Water shall file with the Commission annually a report regarding the "affordable" water rate schedule.
4. The limited rebate proposal of Mountain Water Company is approved as modified herein.

DONE IN OPEN SESSION at Helena, Montana this 21st day of April, 1995, by a vote of 3-0.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION

NANCY MCCAFFREE, Chair

BOB ANDERSON, Commissioner

BOB ROWE, Commissioner
(Opinion attached)

ATTEST:

Kathlene M. Anderson
Commission Secretary

(SEAL)

NOTE: Any interested party may request the Commission to reconsider this decision. A motion to reconsider must be filed within ten (10) days. See ARM 38.2.4806.

**OPINION OF COMMISSIONER ROWE
DOCKET NO. 94.7.26, ORDER NO. 5795b**

The stipulation between Mountain Water and the Montana Consumer Counsel includes three elements, an overall revenue requirement, a limited rebate to some "Clark Fork" area customers, and an experimental "affordable" water program. With several modifications, the stipulation is acceptable.

1. Revenue Requirement.

The Commission retains the responsibility to make an independent determination about the reasonableness of stipulations in general rate cases. While the stipulation does not attribute specific dollar amounts to specific items, it is possible to compare the amount stipulated to with the Commission's previous orders and with the parties' prefiled testimony and determine how all the major issues were treated. The overall result is reasonable.

2. Clark Fork Limited Rebate.

Clark Fork customers who had previously been paying a low flat rate experienced real rate shock when, at the time the interim rate increase was approved, they moved to the Mountain Water flat rate. The question is not whether the overall level of rates is reasonable (it is the same rate paid by Mountain Water customers) as there have been significant improvements in service to Clark Fork customers since acquisition by Mountain Water. The question is the magnitude of the one-time change, and the lack of notice which would have allowed Clark Fork flat rate customers to determine whether they would be better off switching to metered service.

At my request, the parties considered Clark Fork customer complaints, and proposed a limited rebate for customers who switched from flat rate to metered service between October and January. The final order extends this to include all customers who have a meter request pending by the date of this order. This will approximately double the number of customers who receive the rebate. (For many other Clark Fork customers, especially those who irrigate large areas, flat rates may still be the preferred option.)

3. "Affordable Water Program."

The affordable water program is a modest four year experiment to determine whether a slightly lower bill for moderate and low income customers will help offset the hardship caused these

customers by higher utility bills; whether it will help the utility control expenses such as carrying costs, bad debt or collection; whether it will confer other benefits to the system and to other customers; and whether it will be supported by customers generally. Similar programs are common for gas and electric utilities. The Great Falls municipal water system has a reduced rate program. The Commission added to the stipulation a reporting requirement concerning the experiment.

4. Other Issues.

At the hearing, I inquired concerning a wide range of issues raised by customers over the last several months. These included maintenance and system replacement, customer complaints and customer service, the relationship between flat and metered rates and irrigation charges, and overall cost drivers on the system. Some of these issues will remain unresolved.

The Public Service Commission's challenge is to balance public requirements for fair rates and for adequate service. Presently, this balance is probably harder to strike with water utilities than with gas, electricity, or telephones. Instead of "gold plating" their systems to justify rate increases, some water companies actually avoid making needed improvements, allowing both safety and service to deteriorate. There is some evidence this may have occurred on the Clark Fork system before Mountain Water's acquisition of Clark Fork and subsequent improvements.

Both fixed and variable costs for water systems are increasing, generally at a higher rate than for other utilities. Water utilities have a higher ratio of fixed to variable costs than do other utilities, and usually have much smaller customer bases among whom to apportion those costs. In addition to the costs faced by all businesses, increased water costs are particularly driven by the need to comply with federal laws such as Safe Drinking Water Act, by the need to replace aging infrastructure (storage, pumps, treatment, transmission and distribution) and the need to increase capacity to meet modern customers' needs (including fire protection).

As this occurs, utilities, customers, and the Public Service Commission must consider strategies to control costs and to control the impact of cost increases on customers. Some of these strategies will be borrowed from the gas and electric industries. Among the approaches which should be considered as we go forward are efficiency improvements (such as reducing water waste or leakage); reducing production costs (such as using more efficient pumps); achieving economies

of scale through consolidation of small systems; technological improvements (such as new water treatment technologies); management efficiencies; opportunities to lower costs through public-private partnerships; more accurate rate design; and integrated resource planning to better balance supply and demand.

Missoulians are exceptionally informed and concerned about the sources and quality of their water. The water starts out better and the water utility system is in better shape than in many areas. Missoula and Mountain Water have the ability and the opportunity to lead the way in this fundamentally important task.

RESPECTFULLY SUBMITTED this 21st day of April, 1995.

BOB ROWE